

**CHAPTER 3. RISK ASSESSMENT OF FINANCIAL OPERATIONS**

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## CHAPTER 3. RISK ASSESSMENT OF FINANCIAL OPERATIONS

### 3.1 OVERVIEW.

- 3.1.3 This systematic analysis identifies a program's or function's susceptibility to failing to achieve its objectives or goals, to producing erroneous reports or data, to allowing unauthorized use of resources, to permitting illegal or unethical acts, and to receiving an adverse or unfavorable financial statement audit opinion.
- 3.1.4 A risk assessment is conducted in order to identify, measure, and analyze, risks, internal and external, controllable and uncontrollable, so that steps toward mitigation may be taken, particularly in those areas identified as having the greatest risk. It is also a useful tool to ensure that proper internal controls are in place to manage identified risks. Risk assessments can provide reasonable assurance that the internal control structure is well designed and operational, timely, updated to meet changing conditions, and that NASA's objectives are being achieved.

### 3.2 POLICY.

- 3.2.1 NASA shall conduct annual risk assessments of financial management cycles where the level of risk is unknown. Once a baseline risk level is determined a formal risk assessment is required every three years. If a process undergoes significant re-design, legislation or requirement changes, or change in personnel performing the activities a formal risk assessment must be undertaken prior to the next three year cycle. At least annually management shall update/review existing risk assessment documentation.
- 3.2.2 NASA shall conduct the additional risk assessments required by the Improper Payments Information Act in accordance with Chapter 5 of this Volume.

### 3.3 AUTHORITIES AND REFERENCES.

#### 3.3.1 Legislation and Regulations.

- A. Federal Managers' Financial Integrity Act (FMFIA) of 1982, Public Law 97-255 (31 U.S.C. § 3512). This Act requires agencies to establish and maintain internal control and serves as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion regarding the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.
- B. Standards for Internal Control in the Federal Government, Government Accountability Office (GAO) Report GAO/AIMD-00-21.3.1. These standards define the minimum level of quality acceptable for internal control in Federal Government and provide the basis against which internal control is to be evaluated.

- C. OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, Part 4, "Instructions on Budget Execution." This Circular provides guidance on budget execution and outlines specific requirements for the agency's fund control regulations.
- D. OMB Circular No. A-123, Management's Responsibility for Internal Control. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control and specifies that internal control should be an integral part of the entire financial cycle, including auditing.

### 3.3.2 NASA Policy and References.

- A. NASA Policy Directive (NPD) 1200.1, "NASA Internal Control." This NPD establishes NASA's policy regarding the Agency's internal control program and delegates management responsibilities for the development, implementation, and effectiveness of internal controls, as well as the annual assessment of and reporting on the effectiveness.

## 3.4 ROLES AND RESPONSIBILITIES.

- 3.4.1 Agency Chief Financial Officer (CFO). Shall assure that risk assessments are conducted at least once every three years on all Agency financial management programs.
- 3.4.2 Director, Quality Assurance Division (QAD), OCFO. Shall oversee the entity-level assessment for all Agency financial management programs, develop an assessment tool to provide to those areas being assessed, and ensure corrective actions are taken as appropriate.
- 3.4.3 Center CFOs/NASA Shared Services Center/Manager, Business Process and Application Support Office, Integrated Enterprise Management Program (IEMP) Competency Center/ Officials-in-Charge (OICs) of Headquarters Offices. Shall conduct risk assessments in accordance with QAD guidance, and submit the completed assessments in the format specified by QAD.
- 3.4.4 Points of Contact for Areas to Be Assessed. Maintain the completed risk assessment documentation, including supporting information, and monitor and document progress toward resolving recommendations on Corrective Action Plans.

## 3.5 RISK ASSESSMENT OF FINANCIAL OPERATIONS.

- 3.5.3 Financial managers and program managers with financial management responsibilities shall ensure risk assessments on their financial processes are conducted in accordance with QAD guidance and the authorities and references listed in Section 4.3 and take steps toward mitigation may be taken, particularly in those areas identified as having the greatest risk. Documentation of the risk assessments shall be maintained by the Center's

Financial Quality Assurance Office and shall be available to QAD upon request.